

Health Services Report dated January 30, 2006 titled Inclusion of Harris and Rodde Settlement Amounts in DHS Fiscal Outlook and Funds Designated for capital and equipment



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January 30, 2006

TO: Each Supervisor

FROM: Bruce A. Chernof, M.D.  
Acting Director and Chief Medi-Cal Officer

SUBJECT: **INCLUSION OF HARRIS AND RODDE SETTLEMENT AMOUNTS IN DHS  
FISCAL OUTLOOK AND FUNDS DESIGNATED FOR CAPITAL AND  
EQUIPMENT**

This is in response to Supervisor Molina's inquiry regarding the above subject at the January 24, 2006 Board meeting.

Attached for reference are two documents:

Attachment A: Harris and Rodde Mediation Proposal Summary of Estimated Fiscal Impact

Attachment B: DHS Fiscal Outlook - January 10, 2006 (From January 13, 2006 DHS Board memo)

Also, for reference, the \$276 million referenced by Supervisor Molina is the difference between the \$(337.8) million total at the top of Attachment A and the \$61.4 million total at the bottom of the same schedule. The component numbers of the \$(337.8) million total on Attachment A of \$(103.5), \$(113.4) and \$(120.9) million are the sum of the numbers on Lines 8. and 9. on Attachment B for Fiscal Years 06-07, 07-08 and 08-09, respectively. For example, the amounts for

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Fiscal Year 06-07 on Lines 8. and 9. on Attachment B of \$(69.4) and \$(34.1) million add to the \$(103.5) million on the first line of Attachment A.

The "Net Impact" amounts on the fourth and seventh lines of Attachment A for each particular fiscal year (Fiscal Years 05-06 through 08-09), as well as the \$17 million on the eighth line and the \$(2.2) million on the ninth line of Attachment A can be directly traced to Lines 10., 11., 12., and 13. on Attachment B.

With respect to how much of the LAC + USC investment cost is expected to be spend on capital equipment, LAC + USC's CFO has advised us that none is currently planned. However, a total of \$956,955 per Attachment C is expected to be purchased by LAC + USC to be used to help accomplish census and length of stay reductions targeted by the settlement. LAC + USC plans to purchase these equipment items from existing FY 05-06 budgetary resources.

Please let me know if you have any questions or desire further information.

BAC:gww

Attachments

c: Chief Administrative Officer  
County Counsel  
Executive Officer, Board of Supervisors

**HARRIS AND RODDE MEDIATION PROPOSAL**  
**SUMMARY OF ESTIMATED FISCAL IMPACT**  
**JULY 2005**

ATTACHMENT A

Fiscal Years/\$ In Millions\*

	<b><u>LAC+USC Proposed Settlement Term</u></b>				
	<u>FY 05-06</u>	<u>FY 06-07</u>	<u>FY 07-08</u>	<u>FY 08-09</u>	<u>Total</u>
Cost of Inability to Reduce LAC+USC 100 Beds and Close/Divest Rancho Beyond 06/30/06 <sup>(1)</sup>	<u>\$0</u>	<u>(\$103.5)</u> <sup>(2)</sup>	<u>(\$113.4)</u> <sup>(2)</sup>	<u>(\$120.9)</u> <sup>(2)</sup>	<u>(\$337.8)</u>
Proposed Investment Cost <sup>(3)</sup> to Reduce LAC+USC's Budgeted Census Through Reduced Average Patient Length of Stay (6.5 to 6.0)	<u>(\$12.9)</u>	<u>(\$19.3)</u>	<u>(\$19.9)</u>	<u>(\$20.5)</u>	<u>(\$72.6)</u>
Estimated Savings at LAC+USC from Reduced Budgeted Census	<u>7.5</u>	<u>17.9</u>	<u>28.6</u>	<u>39.7</u>	<u>\$93.7</u>
<b>Net Impact – LAC+USC</b>	<u><b>(\$5.4)</b></u>	<u><b>(\$1.4)</b></u>	<u><b>\$8.7</b></u>	<u><b>\$19.2</b></u>	<u><b>\$21.1</b></u>
	<b><u>RLA Proposed Settlement Term</u></b>				
Cost of Rancho Takeover Negotiations, Oversight Panel and Review with Plaintiffs and Liver Clinic Monitoring	<u>(\$0.4)</u>	<u>(\$0.4)</u>	<u>(\$0.4)</u>		<u>(\$1.2)</u>
Savings from Reducing Rancho's Budgeted Census from 191 to 147	<u>0</u>	<u>11.5</u>	<u>15.2</u>		<u>\$26.7</u>
<b>Net Impact – Rancho</b>	<u><b>(\$0.4)</b></u>	<u><b>\$11.1</b></u>	<u><b>\$14.8</b></u>		<u><b>\$25.5</b></u>
One Year Savings of Post Settlement Closure/Divestiture of Rancho at 147 <sup>(4)</sup> Beds vs. 191 Beds				<u>\$17.0</u>	<u>\$17.0</u>
Plaintiff Attorney Fees (One-Time Fees)	<u>(\$2.2)</u>				<u>(\$2.2)</u>
<b>NET VALUE OF SETTLEMENT PROPOSAL</b>	<u><b>(\$8.0)</b></u>	<u><b>\$9.7</b></u>	<u><b>\$23.5</b></u>	<u><b>\$36.2</b></u>	<u><b>\$61.4</b></u>

\* Does not reflect unknown potential impact of State Medi-Cal Redesign. FY 07-08 LAC+USC Operational costs are based on current facility, since updated operational costs projections for the new LAC+USC are still pending.

Notes

<sup>(1)</sup> The current DHS Fiscal Outlook assumes reduction of LAC+USC 100 beds and closure/divestiture of Rancho on 06/30/06

<sup>(2)</sup> Per March 14, 2005 DHS Report "Health Department Budget Committee of the Whole", Attachment D, line 16.

<sup>(3)</sup> Includes 60,000 annual visits primary care diagnostic center (opening 01/01/06) and a one time equipment expense of \$0.3 M, ER ancillary support services, outpatient surgery offload to CHC's, 31 case managers and hospitalist program. For FY's 07-08 and 08-09 assumes 650 and 615 average daily census with at least 38,000 admissions. For FY 07-08 assumes a census of 600 in a new LAC+USC and 50 off-site psych beds. For FY 08-09 assumes a census of 565 in a new LAC+USC and 50 off-site psych beds.

Assumes census and ALOS for FY's 05-06, 06-07, 07-08, and 08-09 are 720 and 6.5, 685 and 6.5, 650 and 6.2, 615 and 5.9, respectively.

<sup>(4)</sup> Includes 12 beds for ortho-diabetes and arthritis services.

**COUNTY OF LOS ANGELES - DEPARTMENT OF HEALTH SERVICES**  
**DHS FISCAL OUTLOOK - JANUARY 10, 2006**  
(\$ IN MILLIONS BASED ON FY 05-08 SUPPLEMENTAL BUDGET RESOLUTION)

Line #	FISCAL YEARS / COLUMNS								TOTAL / (9)
	2002-03 / (1)	2003-04 / (2)	2004-05 / (3)	2005-06 / (4)	2006-07 / (5)	2007-08 / (6)	2008-09 / (7)	2009-10 / (8)	
1. Surplus/Deficit as of June 26, 2002		\$ (326.6)	\$ (549.2)	\$ (709.4)					
2. Scenario III Reductions / Use of Designation Funds	*(see note)	267.8	327.8	357.5					
3. Original Fiscal Stabilization Revenue Request to help fund Scenario III (Not Budgetary Shortfall by FY)	*(see note)	\$ (58.8)	\$ (221.4)	\$ (351.9)	\$ (387.3) <sup>(A)</sup>	\$ (423.7) <sup>(A)</sup>	\$ (461.8) <sup>(A)</sup>	\$ (503.4) <sup>(A)</sup>	\$ (2,408.3)
4. Actual / Forecast Update <sup>(B) (C) (D) (E) (F)</sup>	263.9	340.0	321.8	821.0 <sup>(G)</sup>	175.1	188.0	156.6	(144.2)	
5. Actual / Forecast Surplus/(Shortfall)	\$ 263.9	\$ 281.2	\$ 100.4	\$ 489.1	\$ (212.2)	\$ (235.7)	\$ (305.2)	\$ (647.6)	\$ (647.6)
6. Beginning Fiscal Year Fund Balance	121.0 <sup>(H)</sup>	353.1 <sup>(H)</sup>	452.8 <sup>(H)</sup>	19.7 <sup>(K)</sup>	488.8	276.8	40.9	40.9	40.9
7. Estimated Cumulative Year-End Fund Balance/(Shortfall)	\$ 384.9	\$ 634.3	\$ 553.2	\$ 488.8	\$ 276.6	\$ 40.9	\$ (264.3)	\$ (606.7)	\$ (606.7)
8. Defer Rancho Closure/Divestiture per Harris/Rodde Settlement through FY 07-08 and for One-Year Post-Settlement.	\$ -	\$ (49.5)	\$ (53.9)	\$ (59.5)	\$ (69.4)	\$ (76.9)	\$ (81.8)	\$ -	\$ (391.0)
9. Defer LAC+USC 100 Bed Reduction per Harris/Rodde Settlement through FY 09-10.	-	(16.1)	(29.8)	(31.9)	(34.1)	(38.5)	(39.1)	(41.8)	(229.3)
10. Net Impact of Harris/Rodde Proposal at LAC+USC <sup>(L)</sup>	-	-	-	(5.4)	(1.4)	8.7	19.2	19.8	40.9
11. Net Impact of Harris/Rodde Proposal at Rancho <sup>(M)</sup>	-	-	-	(0.4)	11.1	14.8	-	-	25.5
12. Net Impact of Operating Rancho for One-Year Post-Settlement <sup>(N)</sup>	-	-	-	-	-	-	17.0	-	17.0
13. Cost of Plaintiff Attorney Fees	-	-	-	(2.2)	-	-	-	-	(2.2)
14. Impact to Beginning Fiscal Year Fund Balance	-	-	(65.6)	(149.3)	(248.7)	(342.5)	(432.4)	(517.1)	N/A
15. Revised Estimated Cumulative Year-End Fund Balance/(Shortfall)	\$ 384.9	\$ 568.7	\$ 403.9	\$ 240.1	\$ (65.9)	\$ (391.5) <sup>(O)</sup>	\$ (781.4) <sup>(O)</sup>	\$ (1,145.8) <sup>(O)</sup>	\$ (1,145.8) <sup>(P)</sup>
16. Use of Designation Funds - Decrease/(Increase)		\$ (183.8)	\$ 164.8	\$ 163.8	\$ 240.1	\$ -	\$ -	\$ -	

**NOTES TO FISCAL OUTLOOK**

- \* The \$56.8 million of FY 02-03 service cuts are efficiencies already in the FY 02-03 budget base at this point in time and; therefore, doesn't appear on this schedule.
- (A) These amounts are extrapolations from the original 90% Medicaid block grant request used to determine the fiscal stabilization revenues for the June 2002 DHS Strategic Plan, which only extended through FY 05-08.
- (B) Includes revenues previously shown separately (Measure B, SPCP/UPL Waiver, SB 855, and the Federal portion of the Outpatient Lawsuit Settlement).
- (C) These amounts are potentially improved by the managed care supplement proposal currently being worked on with the State and Federal governments.
- (D) Reflects an "unidentified budget surplus" of \$90.0M for FY's 05-08 through 09-10 added by the CAO.
- (E) Does not include the impact of the medical school agreements which are currently being negotiated for LAC+USC, H/UCLA and OVMC for FY's 05-08 through 09-10. Assumes CBRC/FQHC will be extended for each year beyond FY 04-05. CBRC extension for LA County's outpatient and clinic care was included in the FY 05-08 Adopted State Budget. A Medi-Cal State Plan Amendment to extend the program currently pending CMS approval.
- (F) Does not take into account the opening of the LAC+USC replacement facility in July 2007 for FY's 07-08 through 09-10. Per LAC+USC, current financial projections for the new LAC+USC are still in progress.
- (G) Reflects release of the \$98.1M trust fund reserve.
- (H) Reflects a beginning fund balance of \$386.9M less the \$245.9M fund balance included in the FY 02-03 Supplemental Budget Resolution.
- (I) Reflects a beginning fund balance of \$384.9M less the \$31.8M fund balance included in the FY 03-04 Supplemental Budget Resolution.
- (J) Reflects a beginning fund balance of \$588.7M less the \$115.9M fund balance included in the FY 04-05 Supplemental Budget Resolution.
- (K) Reflects a beginning fund balance of \$403.9M less the \$384.2M fund balance included in the FY 05-08 Supplemental Budget Resolution.
- (L) Per Harris/Rodde settlement proposal, census will be reduced through a reduced average patient length of stay (8.5 to 8.0); Includes enablers and resulting savings.
- (M) Per Harris/Rodde settlement proposal, includes Rancho takeover negotiations, oversight panel and review with plaintiffs, liver clinic monitoring and reducing Rancho's budgeted census from 191 to 147.
- (N) Reflects savings from operating Rancho at a reduced census (147) for one-year post-settlement in preparation for closure/divestiture on June 30, 2009.
- (O) The forecast annual operating shortfalls for FY's 07-08, 08-09, and 09-10 are \$325.8M, \$389.9M, and \$364.4M, respectively.
- (P) - Does not include the impact of the medical school agreements which are currently being negotiated for LAC+USC, H/UCLA and OVMC. Assumes CBRC/FQHC will be extended for each year beyond FY 04-05. CBRC extension for LA County's outpatient and clinic care was included in the FY 05-08 Adopted State Budget. A Medi-Cal State Plan Amendment to extend the program is currently pending CMS approval.
- Includes additional Medi-Cal Redesign funding of \$72.7M, \$92.1M, \$106.4M, \$112.7M, and \$119.1M for FY's 05-08 through 09-10, respectively, for a total benefit of \$503.0M over five years.
- Includes efficiency savings for KDMC of \$20.9M, \$29.5M, \$30.8M, and \$32.1M for FY's 08-07 through 09-10 respectively.

**LAC + USC MEDICAL CENTER**  
**LISTING OF INTENDED EQUIPMENT PURCHASES IN FY 05-06**  
**TO ENABLE CENSUS AND LENGTH OF STAY REDUCTION**

For Urgent Access and Diagnostic Center

<u>Qty.</u>	<u>Fixed Assets - Equipment</u>	<u>Equipment Classification Category</u>	<u>Unit Cost</u>	<u>Total Cost</u>
1	ER-1060	Medical Major Moveable Equip.	\$ 89,654	\$ 89,654
1	Radiology	Medical Major Moveable Equip.	81,800	81,800
1	IE33 PHILLIPS Ultra Sound	Medical Major Moveable Equip.	244,875	244,875
1	Digital Chest Unit	Medical Major Moveable Equip.	270,000	270,000
2	MAC 5500 Cardio	Medical Major Moveable Equip.	9,625	19,250
2	MAC System Tolly-Cardio	Medical Major Moveable Equip.	688	<u>1,376</u>
Total				<u>\$706,955</u>

For Hudson CHC Surgery Expansion

<u>Qty.</u>	<u>Fixed Assets - Equipment</u>	<u>Equipment Classification Category</u>	<u>Unit Cost</u>	<u>Total Cost</u>
1	Anesthesia Machine	Medical Major Moveable Equip.	\$100,000	\$100,000
1	Orthoscopic Unit	Medical Major Moveable Equip.	50,000	50,000
1	Laparoscopic Unit	Medical Major Moveable Equip.	50,000	50,000
1	Orthopedic Microscope	Medical Major Moveable Equip.	50,000	<u>50,000</u>
Total				<u>\$250,000</u>
GRAND TOTAL				<u>\$956,955</u>